

Message Text

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ACTION EB-08

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C O N F I D E N T I A L BRUSSELS 10219

E.O. 11652: GDS
TAGS: EGEN, EFIN, CG, BE
SUBJECT: COBALT SHORTAGES: SOCIETE GENERALE DES
MINERAIS VIEWS

REF: (A) STATE 128826; (B) LUBUMBASHI 546 (NOTAL)

1. EMBOFFS

DISCUSSED COBALT SITUATION MAY 23 WITH
SOCIETE GENERALE DES MINERAIS (SGM) OFFICIALS PIERRE
SCHEIDWEILER AND JEAN DACHY. SGM MARKETS COPPER/COBALT
PRODUCTS FOR METALLURGIE HOBOKEN OVERPELT (MHO) AND IS
THUS FULLY INFORMED OF MHO PRODUCTION AND STOCK SITUATION.

2. SCHEIDWEILER AND DACHY NOTED THAT COBALT SUPPLY
SITUATION HAD BEEN TIGHTENING WELL BEFORE SHABA INVASION
AND CONSEQUENT DISRUPTION OF GECAMINES COPPER AND COBALT
PRODUCTION THERE. DACHY, SGM'S CHIEF LIAISON WITH
GECAMINES OPERATIONS, SAID THAT REASONS ON SUPPLY SIDE FOR
DROP IN COBALT MINED INCLUDED SLOWDOWN IN COPPER OUTPUT
DURING 1977 AND LOWER-THAN-USUAL COBALT CONTENT IN ORES
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BEING PROCESSED. COBALT PRODUCTION HAS JUST BEGAN TO
PICK UP SOMEWHAT BEFORE SHABA. ON DEMAND SIDE, COBALT DE-
MAND HAD NOT BEEN AFFECTED BY ECONOMIC RECESSION IN WEST,
AND THERE HAD BEEN MARKET SPECULATION IN RECENT MONTHS.
(SCHEIDWEILER ALSO EXPRESSED INTEREST IN LEARNING MORE
ABOUT USG STOCKPILE PLANS--NEWS STORIES HERE INDICATE THAT
THE GSA WILL INCREASE THE COBALT STOCKPILE OBJECTIVE FROM

18,000 TO 38,000 TONS). AS A RESULT, ONLY 10,500 TONS OF COBALT HAD BEEN PRODUCED BY GECAMINES IN 1977, BUT 14,000 TONS HAD BEEN SOLD.

3. IN RESPONSE TO TIGHTER SUPPLY SITUATION, GECAMINES COBALT OUTPUT WAS EXPECTED PRIOR TO SHABA EVENTS TO PICK UP IN 1978. IN WAKE OF SHABA, NEITHER SCHEIDWEILER NOR DACHY WOULD HAZARD A GUESS AS TO WHEN GECAMINES WOULD BE BACK IN NORMAL PRODUCTION. EXTENT OF DAMAGE TO INSTALLATIONS UNKNOWN, BUT DACHY SAID HE HAD RECEIVED INFORMATION THAT MINES WERE FLOODED AND THAT REFINERY INSTALLATIONS HAD BEEN DAMAGED IN FIGHTING. MAIN PROBLEM, OF COURSE, WAS TO GET EXPATRIATES BACK TO WORK, AND NO ONE COULD SAY AT THIS TIME WHEN THAT COULD TAKE PLACE. DACHY ADDED THAT EXPATRIATES WORKING ON P-2 COBALT/COPPER EXPANSION PROJECT, WHICH HAD BEEN EXPECTED TO ADD 100,000 TONS OF COPPER AND 6,000 TONS OF COBALT CAPACITY BY END OF 1979, HAD BEEN PARTICULARLY HARD HIT DURING KOLWEZI FIGHTING, WITH QUOTE MANY KILLED UNQUOTE. P-2 EXPANSION, THEREFORE, WILL BE DELAYED CONSIDERABLY.

4. ON PRESENT MHO SUPPLY SITUATION, SGM OFFICIALS CONFIRMED THAT COBALT METAL STOCKS ARE AT LESS THAN 4,000 TONS, THEIR MINIMUM OPERATING LEVEL, ALTHOUGH COBALT METAL USERS MAY SWITCH TO COBALT POWDER AND OTHER COMPOUNDS IF THEY REMAIN MORE AVAILABLE. METALLURGIE
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HOBOKEN OVERPELT HAS BEEN PRODUCING COBALT PRODUCTS AT NEAR MAXIMUM CAPACITY FOR SOME MONTHS, BUT WILL HAVE TO CUT BACK WHEN THE EFFECTS OF SHABA ARE FULLY FELT IN THE PIPELINE. SCHEIDWEILER BELIEVES THAT DEALERS MAY BE HOLDING SUBSTANTIAL STOCKS. ALLOCATION PROGRAM IN US WAS INSTITUTED, ACCORDING TO SGM, TO ASSURE CONTINUED SUPPLIES OF COBALT FOR INDUSTRIAL USERS IN FACE OF SPECULATIVE PURCHASES BY DEALERS. THEY EXPECT ALLOCATION SYSTEM TO CONTINUE FOR INDEFINITE FUTURE AND TO BE EXTENDED WORLD-WIDE.

5. AS FOR FUTURE, SGM FORESEES EXTREMELY TIGHT MARKET AND HIGHER PRICES (WHILE WE WERE TALKING WITH SCHEIDWEILER AND DACHY, THEY RECEIVED INFORMATION THAT FINNS HAD JUST FOLLOWED ZAMBIANS AND RAISED COBALT METAL PRICE FROM \$6.85 TO \$8.50 PER POUND). THEY SAID SOZACOM WILL SURELY FOLLOW SUIT IN THE NEAR FUTURE. OVER LONGER-TERM, HIGH COBALT PRICES MAY ELICIT GREATER INTEREST IN COBALT CONTAINED IN NICKEL LATERITE DEPOSITS, IN SEABED MODULES AND ELSEWHERE. FOR MEDIUM TERM, HOWEVER, SGM BELIEVES THERE IS NO ALTERNATIVE TO HIGHER PRICES UNTIL KOLWEZI COBALT REFINING IS BACK IN OPERATION AND PERHAPS NOT EVEN

THEN. SMALL COBALT REFINING CAPACITY STILL FUNCTIONING
AT LIKASI IS SAID TO BE QUITE INSUFFICIENT TO MEET
CURRENT DEMAND.

6. ACTION REQUESTED: PLEASE PROVIDE AVAILABLE INFORMATION ON GSA STOCKPILE OBJECTIVES FOR COBALT (SANITIZED, IF NECESSARY) FOR USE WITH SGM PER PARAGRAPH 2.
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